

# **SALEM CITY CORPORATION**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

# SALEM CITY CORPORATION

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
Salem City Corporation  
Salem, UT

November 13, 2006

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem City Corporation (City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

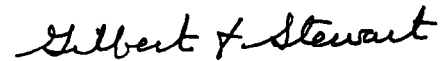
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Salem City Corporation as of June 30, 2006, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2006, on our consideration of Salem City Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 8 and 40 are not a required part of the basic financial statements, but are supplementary

information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Salem City Corporation's basic financial statements. The combining and individual non-major fund financial statements and impact fee analysis are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The impact fee analyses have not been subjected to the auditing procedures, applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



GILBERT & STEWART  
*Certified Public Accountants*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Salem City, we offer readers of Salem City's financial statements this narrative overview and analysis of the financial activities of Salem City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

### Financial Highlights

- The total net assets of Salem City are \$26,384,897 at June 30, 2006 are compared to \$16,558,489 for the prior year.
- At the end of the current fiscal year, Salem City's governmental funds reported combined ending fund balances of \$9,939,427. Of this amount \$468,932 is available for spending at the government's discretion (unreserved fund balance).

### Reporting the City as a Whole

This discussion and analysis is intended to serve as an introduction to Salem City's basic financial statements. Salem City's basic financial statements comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**The government-wide financial statements** are designed to provide readers with a broad overview of Salem City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Salem City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of Salem City is improving or deteriorating. However, you will also need to consider other nonfinancial factors.
- *The statement of activities* presents information showing how the city's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Salem City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 9 and 10 of this report.

## Reporting the City's Most Significant Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Salem City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the city can be divided into three categories: governmental funds, proprietary funds, and Fiduciary Funds.

- *Governmental Funds* – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The governmental fund financial statements can be found on pages 11 through 14 of this report.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund and Special Revenue Fund. The balance of the governmental funds is determined to be non major and is included in the combined statements within this report.

- *Proprietary Funds* – Salem City maintains two type of proprietary fund.
  - *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Salem City uses enterprise funds to account for its Water, Sewer, Electric, and Solid Waste.
  - *Internal Service Funds* – are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The internal service funds consist of a Motor Pool Fund and a Data Processing Fund.

The basic proprietary fund financial statements can be found on pages 15 through 18 of this report.

- *Fiduciary Funds* – Salem City maintains one type of Fiduciary Fund. Trust Funds are used to account for assets held by the City as trustee for individuals. The City has one trust fund for Cemetery Perpetual Care. This is a trust fund used to account for monies received for the perpetual care of cemetery lots.

The basic fiduciary funds financial statements can be found on pages 41 and 42 of this report.

## Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Salem City, assets exceeded liabilities by \$26,384,897

The largest portion of Salem City's net assets reflects its investment in capital assets (e.g., land, building, infrastructure assets, and machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the City's net assets.

**Salem City's Net Assets**

	Governmental Activities		Business - Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 1,275,654	\$ 885,729	\$ 2,999,154	\$ 1,893,849	\$ 4,274,808	\$ 2,779,578
Capital assets	10,071,776	6,954,054	17,984,488	12,756,209	28,056,264	19,710,263
Total Assets	11,347,430	7,839,783	20,983,642	14,650,058	32,331,072	22,489,841
Long-term debt outstanding	719,419	769,821	3,358,861	3,807,861	4,078,280	4,577,682
Other liabilities	688,584	619,942	1,179,311	733,728	1,867,895	1,353,670
Total Liabilities	1,408,003	1,389,763	4,538,172	4,541,589	5,946,175	5,931,352
Net assets						
Invested in capital assets, - net of related debt	9,236,284	6,077,265	14,176,627	8,420,348	23,412,911	14,477,618
Restricted	234,211	221,403	682,362	574,948	916,573	796,351
Unrestricted	468,932	151,170	1,586,481	1,113,173	2,055,413	1,284,520
Total net assets	<u>\$ 9,939,427</u>	<u>\$ 6,450,020</u>	<u>\$ 16,445,470</u>	<u>\$ 10,108,469</u>	<u>\$ 26,384,897</u>	<u>\$ 16,558,489</u>

Government activities increased Salem City's net assets by \$3,489,407, thereby accounting for 36% of the total growth in the net assets of Salem City. The elements of this increase are as follows:

#### Salem City's Changes in Net Assets

	Governmental Activities		Business - Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues:						
Charges for services	\$ 1,388,345	\$ 898,308	\$ 3,692,040	\$ 3,003,937	\$ 5,080,385	\$ 3,902,245
Operation grants and Contributions	207,924	246,496	5,355,572	-	5,563,496	246,496
Capital grants and Contributions	3,557,758	240,831	511,502	663,641	4,069,260	904,472
General revenues:						
Property taxes	307,055	266,038	47,387	42,791	354,442	308,829
Other taxes	723,688	664,554	-	-	723,688	664,554
Other	20,316	5,720	29,492	13,895	49,808	19,615
Total revenues	<u>\$ 6,205,086</u>	<u>\$ 2,321,947</u>	<u>\$ 9,635,993</u>	<u>\$ 3,724,264</u>	<u>\$ 15,841,079</u>	<u>\$ 6,046,211</u>
Expenses:						
General government	\$ 797,644	\$ 553,568	\$ -	\$ -	\$ 797,644	\$ 553,568
Public Safety	713,497	652,809	-	-	713,497	652,809
Highways/streets	495,280	476,080	-	-	495,280	476,080
Parks & recreation	687,458	567,188	-	-	687,458	567,188
Interest on long term debt	42,977	43,783	-	-	42,977	43,783
Water	-	-	633,635	612,237	633,635	612,237
Sewer	-	-	498,209	462,930	498,209	462,930
Electric	-	-	1,922,370	1,816,425	1,922,370	1,816,425
Waste	-	-	224,031	210,102	224,031	210,102
Total Expense	<u>2,736,856</u>	<u>2,293,428</u>	<u>3,278,245</u>	<u>3,101,694</u>	<u>6,015,101</u>	<u>5,395,122</u>
Increase in net assets	<u>3,468,230</u>	<u>28,519</u>	<u>6,357,748</u>	<u>622,570</u>	<u>9,825,978</u>	<u>651,089</u>
Transfers	<u>21,177</u>	<u>21,237</u>	<u>(21,177)</u>	<u>(21,237)</u>	<u>-</u>	<u>-</u>
Net increases in net assets	<u>3,489,407</u>	<u>49,756</u>	<u>6,336,571</u>	<u>601,333</u>	<u>9,825,978</u>	<u>651,089</u>
Net assets - Beginning	<u>6,450,020</u>	<u>6,400,264</u>	<u>10,108,899</u>	<u>9,507,136</u>	<u>16,558,919</u>	<u>15,907,400</u>
Net assets - Ending	<u>\$ 9,939,427</u>	<u>\$ 6,450,020</u>	<u>\$ 16,445,470</u>	<u>\$ 10,108,469</u>	<u>\$ 26,384,897</u>	<u>\$ 16,558,489</u>

#### Financial Analysis of the Government's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spend able resources. Such information is useful in assessing the City's financing requirements.



At the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$684,438. Of this total amount \$443,555 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$54,112, while total fund balance reached \$294,995. As a measure of the general fund's liquidity, it may be useful to compare the total fund balance to total fund expenditures. The fund balance represents 12.17% of total general fund expenditures.

The city maintains enterprise funds to account for the business-type activities of the city. The information is found in the government-wide financial statements, but in more detail.

Unrestricted assets of the water, sewer, electrical, and solid waste at the end of the year amounted to \$1,537,481. The sewer fund upgraded much of the equipment in the sewer lagoons to account for the change in the unrestricted assets. Revenues and expenditures for normal operation remained fairly stable with some increases in both areas.

### **General Fund Budgetary Highlights**

During the fiscal year, the General Fund's original budget was amended from an original budget expenses total of \$2,350,938 to a final budget of \$2,773,065, an increase of \$422,127. The increases can be briefly summarized as follows:

- \$ 2,890 increase in Judicial expenditures
- \$ 18,668 increase in Central Staff expenditures
- \$ 3,000 increase in Library expenditures
- \$( 2,200) decrease in Treasurer & Recorder expenditures
- \$ 28,500 increase in Professional and Technical expenditures
- \$ 10,070 increase in Builder Inspector expenditures
- \$ 650 increase in Election expenditures
- \$ 4,500 increase in Government Buildings expenditures
- \$ 32,995 increase Engineering expenditures
- \$ 5,438 increase in Police
- \$ 1,200 increase in Emergency Management
- \$ 43,250 increase in Highways & Public Improvements expenditures  
(B&L Road Money)
- \$ 3,600 increase in Parks expenditures
- \$( 4,510) decrease in Cemetery expenditures
- \$ 16,500 increase in Salem Athletic Association expenditures
- \$( 23,000) decrease in Recreation expenditures
- \$280,576 increase in Transfer out.

The increases in funding can be briefly summarized as follows:

- \$ 74,000 increase in Taxes
- \$ 17,000 increase in Licenses & Permits
- \$387,150 increase in Intergovernmental (Fire and Ambulance Grants)
- \$( 46,893) decrease in Charges for Services
- \$ 40,870 increase in Miscellaneous Revenue
- \$( 50,000) decrease in Transfers in

### Capital Asset and Debt Administration

Salem City's investment in capital assets for its governmental and proprietary fund activities as of June 30, 2006, amounts to \$28,056,264 (net of accumulated depreciation). The investments in capital assets include land, buildings, improvements, machinery and equipment, and infrastructure. There was a total increase in the City's investment in fixed assets for the current year. The governmental activities had an increase of \$3,687,575 and business-type activities had a \$5,556,116 increase.

Major capital asset events during the current fiscal year including improvements to 18 new subdivisions as follows:

• Road additions	\$2,850,254
• Culinary Water additions	\$1,226,914
• Pressurized Irrigation additions	\$ 808,616
• Storm Drain additions	\$ 512,962
• Sewer Line additions	\$1,117,753
• Electrical additions	\$1,689,327
• Cemetery Improvements (rock wall fences)	\$ 62,786
• Land to build new parks, rock wall fences around subdivision, or misc. additions	\$ 489,471
• Sidewalk additions	\$ 8,000

### Salem City's Capital Assets

	Governmental Activities 2006	Business- Type Activities 2006	Total 2006
Land	\$ 278,794	\$ 112,895	\$ 391,689
Buildings	756,919	23,251	780,170
Improvements	1,698,519	20,600,264	22,298,783
Equipment	1,532,431	300,480	1,832,911
Infrastructure	14,825,865		14,825,865
Water Rights		696,466	696,466
Construction in Progress	8,700		8,700
Total Assets	\$ 19,101,228	\$ 21,733,356	\$ 40,834,584

Additional information on the City's capital assets can be found in the footnotes to this financial report.

**Long-term debt.** At the end of the current year, the city had total bonded debt outstanding of \$4,479,861. Of this amount \$2,723,000 comprises debt backed by the full faith and credit of the government and \$1,756,861 is debt that is secured by specific revenue sources (i.e., revenue bonds).

### **Salem City's Outstanding Debt General Obligation and Revenue Bonds**

The City's total outstanding debt decreased by (\$577,855) during the current fiscal year. The outstanding bond decreased \$560,000 and the outstanding capital lease decreased by \$17,855. The key factors in the decrease were the scheduled bond and lease payments.

Salem City's most recent bond issue had a rating of "AAA" from Moody's Investors Service, Inc.

Additional information on the City's long-term debt can be found in the footnotes to this financial report.

### **Economic Factors and Next Year's Budgets and Rates**

- The General Fund budget for the fiscal year-ending June 30, 2006 reflects an increase of 18% over the final fiscal year ending, June 30, 2005
- Small commercial businesses in Salem are increasing

### **Request for Information**

This financial report is designed to provide a general overview of Salem City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Salem City, Finance Director, P.O. Box 901, Salem, Utah, 84653.

**SALEM CITY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 935,490	\$ 1,786,121	\$ 2,721,611
Cash - restricted	-	155,016	155,016
Receivables - net	321,459	375,287	696,746
Inventories	-	241,040	241,040
Equity in joint venture	-	207,969	207,969
Deferred bond financing cost - net	18,705	233,721	252,426
Capital assets (net of accumulated depreciation):			
Land	278,794	112,895	391,689
Buildings	574,880	4,640	579,520
Improvements	1,179,994	17,131,236	18,311,230
Equipment	364,591	39,251	403,842
Infrastructure	7,664,817	-	7,664,817
Water rights and stock	-	696,466	696,466
Construction in progress	8,700	-	8,700
Total assets	<u>11,347,430</u>	<u>20,983,642</u>	<u>32,331,072</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	321,254	212,445	533,699
Bond interest payable	11,760	38,737	50,497
Bonds and capital leases payable - current	50,402	449,000	499,402
Compensated absences	6,695	-	6,695
Internal balances	47,216	(46,303)	913
Deferred revenue	251,257	525,432	776,689
Bonds and capital leases payable - noncurrent	719,419	3,358,861	4,078,280
Total liabilities	<u>1,408,003</u>	<u>4,538,172</u>	<u>5,946,175</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	9,236,284	14,176,627	23,412,911
Restricted for roads and recreational facilities	234,211	682,362	916,573
Unrestricted	468,932	1,586,481	2,055,413
Total net assets	<u>\$ 9,939,427</u>	<u>\$ 16,445,470</u>	<u>\$ 26,384,897</u>

*See accompanying notes.*

**SALEM CITY**  
Statement of Activities  
For the Year Ended June 30, 2006

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating		Governmental Activities	Primary Government	
		Charges for Services	Grants and Contributions		Business-type Activities	Total
<b>Primary governmental activities:</b>						
Governmental activities:						
General government	\$ 797,644	\$ 1,026,460	\$ 13,762	\$ 242,578	\$ -	\$ 242,578
Public safety	713,497	93,517	2,940	(617,040)		(617,040)
Highways and public works	495,280	68,870	191,222	3,175,323		3,175,323
Parks and recreation	687,458	199,498	0	(340,713)		(340,713)
Interest on long-term debt	42,977			(42,977)		(42,977)
Total governmental activities	<u>2,736,856</u>	<u>1,388,345</u>	<u>207,924</u>	<u>2,417,171</u>		<u>2,417,171</u>
<b>Business-type activities:</b>						
Water Utility	633,635	838,688	2,035,530		2,510,919	2,510,919
Sewer Utility	498,209	450,164	1,630,715		1,718,137	1,718,137
Electric Utility	1,922,370	2,187,380	1,689,327		2,060,036	2,060,036
Waste Utility	224,031	215,808	0		(8,223)	(8,223)
Total business-type activities	<u>3,278,245</u>	<u>3,692,040</u>	<u>5,355,572</u>		<u>6,280,869</u>	<u>6,280,869</u>
<b>Total primary government</b>	<u>\$ 6,015,101</u>	<u>\$ 5,080,385</u>	<u>\$ 5,563,496</u>	<u>\$ 2,417,171</u>	<u>\$ 6,280,869</u>	<u>\$ 8,698,040</u>
<b>General revenues:</b>						
Property taxes				\$ 307,055	\$ 47,387	\$ 354,442
General sales and use tax				434,547		434,547
Franchise tax				289,141		289,141
Unrestricted investment earnings				17,202	26,438	43,640
Miscellaneous				3,114	3,054	6,168
Transfers				21,177	(21,177)	0
Total general revenues and transfers				<u>1,072,236</u>	<u>55,702</u>	<u>1,127,938</u>
Change in net assets				3,489,407	6,336,571	9,825,978
Net assets - beginning				6,450,020	10,108,899	16,558,919
Net assets - ending				<u>\$ 9,939,427</u>	<u>\$16,445,470</u>	<u>\$26,384,897</u>

See accompanying notes.

**SALEM CITY**  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2006

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 546,047	\$ 389,443	\$ 935,490
Receivables (net):			
Property tax	270,493		270,493
Other	50,966		50,966
Total assets	<u>\$ 867,506</u>	<u>\$ 389,443</u>	<u>\$ 1,256,949</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable & accrued liabilities	\$ 321,254	\$ -	\$ 321,254
Deferred revenue	251,257	-	251,257
Total liabilities	<u>572,511</u>	<u>-</u>	<u>572,511</u>
 Fund Balances:			
Fund Balance Restricted for:			
Roads and recreational activities	234,211	-	234,211
Fund balances reserved for:			
Public safety, library, and park activities	6,672	-	6,672
Unreserved, reported in:			
General Fund	54,112	-	54,112
Special Revenue Funds	-	54,283	54,283
Capital Projects	-	271,876	271,876
Perpetual Care Fund	-	63,284	63,284
Total fund balances	<u>294,995</u>	<u>389,443</u>	<u>684,438</u>
Total liabilities and fund balances	<u>\$ 867,506</u>	<u>\$ 389,443</u>	<u>\$ 1,256,949</u>

See accompanying notes.

**SALEM CITY**  
Balance Sheet Reconciliation to  
Statement of Net Assets  
June 30, 2006

Total fund balances - governmental fund types: \$ 684,438

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 10,071,776

Governmental funds report the effects of bond issuance costs, whereas these amounts are deferred and shown as net amortization in the statement of net assets. 18,705

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (835,492)

Net assets of government activities \$ 9,939,427

*See accompanying notes.*

**SALEM CITY**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
For the Year Ended June 30, 2006

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 1,030,744	\$ -	\$ 1,030,744
Licenses and permits	198,089	-	198,089
Intergovernmental	551,449	70,131	621,580
Charges for services	740,499	-	740,499
Investment earnings	13,960	3,242	17,202
Fines and forfeitures	22,339	-	22,339
Miscellaneous revenue	161,009	-	161,009
Total revenues	<u>2,718,089</u>	<u>73,373</u>	<u>2,791,462</u>
<b>EXPENDITURES</b>			
Current:			
General government	774,613	-	774,613
Public safety	691,818	-	691,818
Highways and public works	267,634	-	267,634
Parks and recreation	669,264	-	669,264
Capital outlay	-	8,700	8,700
Debt service:			
Principal retirement	17,855	32,000	49,855
Interest and fiscal charges	3,321	38,865	42,186
Total expenditures	<u>2,424,505</u>	<u>79,565</u>	<u>2,504,070</u>
Excess revenues over (under) expenditures	<u>293,584</u>	<u>(6,192)</u>	<u>287,392</u>
<b>Other financing sources (uses)</b>			
Transfers in	21,177	280,576	301,753
Transfers out	(280,576)	-	(280,576)
Sale of assets	3,114	-	3,114
Total other financing sources and uses	<u>(256,285)</u>	<u>280,576</u>	<u>24,291</u>
Net change in fund balance	37,299	274,384	311,683
Fund balances - beginning of year	257,696	115,059	372,755
Fund balances - end of year	<u>\$ 294,995</u>	<u>\$ 389,443</u>	<u>\$ 684,438</u>

*See accompanying notes.*



**SALEM CITY**  
Statement of Changes  
Reconciliation to Statement of Activities  
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 311,683
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(292,789)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets	3,410,511
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items	48,565
Internal service funds are used by management to charge the cost of the motor pool and data processing to individual funds. The net asset decrease of the internal service funds are reposted with governmental.	(986)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>12,423</u>
Change in net assets of governmental activities	<u><u>\$ 3,489,407</u></u>

*See accompanying notes.*

**SALEM CITY**  
Statement of Net Assets  
**Proprietary Funds**  
June 30, 2006

	Business-Type Activities - Enterprise			Non-Major Enterprise Fund		Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Electric Utility	Waste Utility	Total	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 526,588	\$ 277,504	\$ 883,235	\$ 98,794	\$ 1,786,121	\$ -
Accounts receivable - net	76,896	79,256	198,462	20,673	375,287	-
Inventories	22,559	-	218,481	-	241,040	-
Due from other funds	-	47,216	-	-	47,216	-
Total current assets	<u>626,043</u>	<u>403,976</u>	<u>1,300,178</u>	<u>119,467</u>	<u>2,449,664</u>	<u>-</u>
Noncurrent assets:						
Restricted cash and cash equivalents	37,092	-	117,924	-	155,016	-
Land, equipment, buildings and improv.	9,006,200	7,300,123	4,628,153	102,414	21,036,890	799,722
Less: Accumulated depreciation	(1,334,998)	(1,673,420)	(659,659)	(80,791)	(3,748,868)	(667,209)
Water rights and stock	696,466	-	-	-	696,466	-
Equity in joint venture	-	-	-	207,969	207,969	-
Deferred bond financing costs - net	213,334	1,206	19,181	-	233,721	-
Total noncurrent assets	<u>8,618,094</u>	<u>5,627,909</u>	<u>4,105,599</u>	<u>229,592</u>	<u>18,581,194</u>	<u>132,513</u>
Total assets	<u>\$ 9,244,137</u>	<u>\$ 6,031,885</u>	<u>\$ 5,405,777</u>	<u>\$ 349,059</u>	<u>\$ 21,030,858</u>	<u>\$ 132,513</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 49,494	\$ 6,340	\$ 195,348	\$ -	\$ 251,182	\$ 2,696
Due to other funds	-	-	-	-	-	47,216
Bonds and capital leases	279,000	50,000	120,000	-	449,000	-
Total current liabilities	<u>328,494</u>	<u>56,340</u>	<u>315,348</u>	<u>-</u>	<u>700,182</u>	<u>49,912</u>
Noncurrent liabilities:						
Bonds and capital leases	2,661,875	156,986	540,000	-	3,358,861	-
Deferred Revenue	-	38,361	487,071	-	525,432	-
Total noncurrent liabilities	<u>2,661,875</u>	<u>195,347</u>	<u>1,027,071</u>	<u>-</u>	<u>3,884,293</u>	<u>-</u>
Total liabilities	<u>2,990,369</u>	<u>251,687</u>	<u>1,342,419</u>	<u>-</u>	<u>4,584,475</u>	<u>49,912</u>
<b>Net Assets:</b>						
Invested in cap assets, net of related debt	5,426,793	5,419,717	3,308,494	21,623	14,176,627	132,513
Restricted for debt and other activities	166,901	328,368	187,093	-	682,362	-
Unrestricted	660,074	32,113	567,771	327,436	1,587,394	(49,912)
Total net assets	<u>\$ 6,253,768</u>	<u>\$ 5,780,198</u>	<u>\$ 4,063,358</u>	<u>\$ 349,059</u>	<u>\$ 16,446,383</u>	<u>\$ 82,601</u>
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund					\$ (913)	
Net assets from business-type activities					\$ 16,445,470	

See accompanying notes.

**SALEM CITY**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise			Non-Major Enterprise Fund		Governmental Internal Service Fund
	Water Utility	Sewer Utility	Electric Utility	Waste Utility	Total	
<b>Operating revenues:</b>						
Charges for services	\$ -	\$ -	\$ -	\$ 215,808	\$ 215,808	\$ 287,085
Charges pledged for revenue bonds	815,493	448,244	2,116,754	-	3,380,491	-
Fees and miscellaneous	23,195	1,920	10,792	-	35,907	-
Total operating revenues	838,688	450,164	2,127,546	215,808	3,632,206	287,085
<b>Operating expenses:</b>						
Purchased power	-	-	1,198,428	-	1,198,428	-
Salaries and wages	40,714	78,778	156,722	5,272	281,486	73,329
Employee benefits	21,867	44,376	69,041	668	135,952	35,172
Contractual services	157,468	82,021	138,840	164,951	543,280	106,910
Supplies and materials	34,444	44,153	70,403	2,500	151,500	21,631
Administrative services	110,000	83,000	175,000	45,000	413,000	-
Utilities and telephone	9,344	45,460	-	-	54,804	-
Depreciation	139,977	111,649	70,660	5,546	327,832	53,171
Amortization of bond financing costs	22,880	1,842	4,426	-	29,148	-
Total operating expenses	536,694	491,279	1,883,520	223,937	3,135,430	290,213
Operating income	301,994	(41,115)	244,026	(8,129)	496,776	(3,128)
<b>Nonoperating revenues (expenses):</b>						
Property taxes	-	47,387	-	-	47,387	-
Late payment penalty	-	-	59,834	-	59,834	-
Interest revenue	10,379	1,480	14,426	153	26,438	2,142
Impact fees	270,336	135,467	105,699	-	511,502	-
Increase equity in joint venture	-	-	-	3,054	3,054	-
Interest expense and fiscal charges	(96,678)	(6,741)	(38,483)	-	(141,902)	-
Total nonoperating revenues (expenses)	184,037	177,593	141,476	3,207	506,313	2,142
Net income before contributions & transfers	486,031	136,478	385,502	(4,922)	1,003,089	(986)
Transfers out	-	(21,177)	-	-	(21,177)	-
Developers contributions	2,035,530	1,630,715	1,689,327	-	5,355,572	-
Change in net assets	2,521,561	1,746,016	2,074,829	(4,922)	6,337,484	(986)
Total net assets - beginning	3,732,207	4,034,182	1,988,529	353,981		83,587
Total net assets - ending	\$ 6,253,768	\$ 5,780,198	\$ 4,063,358	\$ 349,059		\$ 82,601
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund					(913)	
Change in net assets of business-type activities					\$ 6,336,571	

See accompanying notes.

**SALEM CITY**  
Statement of Cash Flows  
**Proprietary Funds**  
For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise			Non-Major Enterprise Fund	
	Water Utility	Sewer Utility	Electric Utility	Waste Utility	Total
<b>Cash Flows From Operating Activities</b>					
Receipts from customers	\$ 798,190	\$ 453,337	\$ 2,566,700	\$ 215,082	\$ 4,033,309
Payments to suppliers	(217,752)	(216,010)	(1,513,090)	(168,119)	(2,114,971)
Payments to general fund for services	(110,000)	(83,000)	(175,000)	(45,000)	(413,000)
Payments to employees	(40,714)	(78,778)	(156,722)	(5,272)	(281,486)
Net cash provided (used) by operating activities	429,724	75,549	721,888	(3,309)	1,223,852
<b>Cash Flows From Noncapital Financing Activities</b>					
Interfund activity	-	(10,782)	-	-	(10,782)
Net cash provided (used) by noncapital financing activities	-	(10,782)	-	-	(10,782)
<b>Cash Flows From Capital and Related Financing Activities</b>					
Property taxes	-	47,387	-	-	47,387
Impact fees	270,336	135,467	105,699	-	511,502
Late payment penalty	-	-	59,834	-	59,834
Purchases of capital assets	(21,612)	(8,016)	(170,911)	-	(200,539)
Principal paid on debt	(263,000)	(155,000)	(110,000)	-	(528,000)
Interest paid on capital debt	(100,488)	(2,720)	(39,452)	-	(142,660)
Net cash provided (used) by capital and related financing activities	(114,764)	17,118	(154,830)	-	(252,476)
<b>Cash Flows From Investing Activities</b>					
Interest and dividends received	10,379	1,480	14,426	153	26,438
Net cash provided (used) by investing activities	10,379	1,480	14,426	153	26,438
Net increase (decrease) in cash and cash equivalents	325,339	83,365	581,484	(3,156)	987,032
Cash and cash equivalents - beginning	238,341	194,139	419,675	101,950	954,105
Cash and cash equivalents - end	\$ 563,680	\$ 277,504	\$ 1,001,159	\$ 98,794	\$ 1,941,137

See accompanying notes.

**SALEM CITY**  
Statement of Cash Flows  
**Proprietary Funds**  
For the Year Ended June 30, 2006

	<u>Business-Type Activities - Enterprise</u>			<u>Non-Major Enterprise Fund</u>	
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Electric Utility</u>	<u>Waste Utility</u>	<u>Total</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>					
Operating income	\$ 301,994	\$ (41,115)	\$ 244,026	\$ (8,129)	\$ 496,776
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	139,977	111,649	70,660	5,546	327,832
Amortization expense	22,880	1,842	4,426	-	29,148
(Increase) decrease in accounts receivable	(40,498)	3,173	(58,114)	(726)	(96,165)
Increase (decrease) in inventory	161	-	(45,919)	-	(45,758)
Increase (decrease) in accounts payable	5,210	-	9,541	-	14,751
Increase (decrease) in customers deposits	-	-	10,197	-	10,197
Increase (decrease) in deferred revenue	-	-	487,071	-	487,071
Total adjustments	<u>127,730</u>	<u>116,664</u>	<u>477,862</u>	<u>4,820</u>	<u>727,076</u>
Net cash provided (used) by operating activities	<u>\$ 429,724</u>	<u>\$ 75,549</u>	<u>\$ 721,888</u>	<u>\$ (3,309)</u>	<u>\$ 1,223,852</u>

**Supplementary information:**

Non-cash items from capital and related financing activities include contributions by subdivides to the water system of \$2,035,532, to the sewer system of \$1,630,715, and to the electric system of \$1,689,327.

See accompanying notes.

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Salem City Corporation (the City) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established in GAAP and used by the City are discussed below.

**A. Reporting Entity**

Salem City Corporation was incorporated under laws of the State of Utah. Under the present form of government, administrative and legislative powers are vested in a governing body, consisting of the Mayor and a City Council. They are assisted by a Finance Director who is currently responsible for the financial matters of the City, including money management, accounts payable, financial statements, and accounts receivable.

The City provides the following services as mandated by law: Public Safety, Judicial Services, Highways and Streets, Sanitation, Parks, Cemetery, Water, Sewer, Electric, Waste Removal, Storm Drain, Public Improvements, Planning and Zoning, and General Administrative Services

**Blended Component Units.**

The Municipal Building Authority was created by the City during fiscal year 2002 and is governed by the City's Mayor and Council. The authority uses the proceeds of its tax-exempt bonds to finance the construction or acquisition of general capital assets for the City. The bonds are secured by a lease agreement with the City and will be retired through lease payments from the City. The financial statements of the Municipal Building Authority are included in the accompanying financial statements as a blended component unit.

The Municipal Building Authority is considered a blended component unit since the governing board is the same governing board of the City.

The Municipal Building Authority is presented as a special revenue fund in the financial statements.

Complete financial statements for each of the individual component units may be obtained at the City's administrative offices.

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt as well as expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 1 – SUMMARY (*Continued*)**

Property taxes, sales taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water operations.

The *sewer fund* accounts for the activities of the City's sewer operations.

The *electric fund* accounts for the activities in the City's electric operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statement. Exceptions to this general rule are payments to the general fund by the various enterprise funds for providing administrative services for such funds. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations.

Additionally, the government reports the following fund types:

*Special Revenue Funds*

*Municipal Building Authority* accounts for the activities of the municipal building authority.

*Capital Projects Fund*

*Capital Projects* accounts for the construction of community projects.

*Permanent Fund*

*Perpetual Care* accounts for the perpetual care of the cemetery.

*Internal Service Funds*

*Motor Pool Fund* accounts for the activities of the motor pool.

*Data Processing Fund* accounts for the activities of the data processing services.

*Proprietary Funds*

*Waste Utility* accounts for the activities of the waste removal.



**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**D. Assets, Liabilities, and Net Assets or Equity**

**1. Deposits and investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments consist of amounts deposited with Utah Public Treasurers' Investment Fund, treasury bills of the U.S. Government, and money market funds. Investments are stated at fair value, which approximates cost.

**2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "due to/due from other funds".

**3. Inventories and prepaid items**

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**4. Restricted Assets**

Restricted assets are comprised of cash restricted for future payments of principal and interest on debt services.

Restricted resources rather than unrestricted resources are used first to fund related appropriations.

**5. Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 1 – SUMMARY (*Continued*)**

Donated capital assets are recorded at estimated fair market value at the date of donation. The infrastructure assets consist of the estimated value of the City's streets and roads at July 1, 2003, plus the costs of additions since that date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	25-40
Improvements other than buildings	20-25
Infrastructure	20
Machinery and equipment	5-10

**6. Compensated Absences**

Employees may accumulate sick leave. Those with accumulated leave in excess of 80 hours may be compensated.

**7. Taxes**

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1<sup>st</sup>. Taxes are levied on all business personal property on January 1<sup>st</sup> and real estate and improvement taxes are levied on January 1<sup>st</sup> and are payable by November 30<sup>th</sup>. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The City Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22<sup>nd</sup> each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**8. Long-term obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

**9. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**10. Use of Estimates**

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**Capital related items:**

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the city as a whole.

Cost of capital assets	\$19,101,228
Accumulated depreciation	( 9,029,452)
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i> )	<u>\$ 10,071,776</u>

**Long-term debt transactions:**

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the fund statements. All liabilities (both current and long-term) are reported in the statement of net assets.

Bonds and capital leases payable	(\$ 769,821)
Bond interest payable	( 11,760)
Other long-term payables	( 53,911)
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>(\$ 835,492)</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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Capital outlay	\$ 276,764
Depreciation expense	( 569,553)
Net adjustment to increase <i>net changes in fund balances-</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i>	( <u>\$ 292,789</u> )
Capital contribution by developers	<u>\$3,410,511</u>

Another element of that reconciliation states, "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

Debt issued or retired:	
Principal paid on bonds and capital leases	49,855
Issuance cost amortization	( 1,290)
Total debt incurred	<u>\$ 48,565</u>

**NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING**

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles. All funds of the City have legally adopted budgets.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the City Council in May, the City administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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- C. On or before June 22<sup>nd</sup>, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1<sup>st</sup>.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City modified the budget on several occasions using the above procedures.

**NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS**

**A. Deposits**

Deposits – Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. City funds are deposited in qualified depositories as defined by the Act. The City does not have a deposit policy for custodial credit risk. As of June 30, 2006, the City's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance</u> <u>June 30, 2006</u>
Regular Checking Account	Insured	\$ 38,125
Savings Account	Insured	161,875
Savings and Other Deposits	Uninsured and uncollateralized	<u>1,913,145</u>
		<u><u>\$2,113,145</u></u>

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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*B. Investments*

The City's investments are managed through participation in the State Public Treasurer's Investment Fund. As of June 30, 2006, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurers' Investment Fund	55 days average	<u>\$1,030,799</u>

Investments – Interest Rate Risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

Investments – Credit Risk – The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah.

The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices.

Investments – Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's entire \$1,030,798 of underlying securities are held by the investment's counterparty, not in the name of the City, not insured, and are not rated. The City does not have an investment policy for custodial credit risk.

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 5 - RECEIVABLES**

Receivables as of year end for the government's individual major fund and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Nonmajor Governmental Waste</u>	<u>Total</u>
Receivables:						
Accounts	\$ -	\$ 76,896	\$ 37,317	\$ 192,428	\$ 20,673	\$ 327,314
Property Tax	270,493		41,298			311,791
Other	50,966		641	6,034		57,641
Total	<u>\$ 321,459</u>	<u>\$ 76,896</u>	<u>\$ 79,256</u>	<u>\$ 198,462</u>	<u>\$ 20,673</u>	<u>\$ 696,746</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes (General Fund)	\$251,257	
Property taxes receivable (Sewer Fund)	38,361	
Electric supplies (Electric Fund)		<u>\$487,071</u>
Total deferred/unearned revenue	<u>\$289,618</u>	<u>\$487,071</u>

**NOTE 6 - INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS**

The composition of interfund balances as of June 30, 2006 is as follows:

**Due to/from other funds:**

<u>Receivable fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Fund	Internal Service Funds	\$ 47,216



**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

<b>Primary Government</b>	<b>Beginning</b>			<b>Ending</b>
<b>Governmental activities:</b>	<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b>
Capital assets not being depreciated:				
Land	\$ 278,794	\$ -	\$ -	\$ 278,794
Construction in progress		8,700		8,700
Total capital assets not being depreciated	<u>278,794</u>	<u>8,700</u>	<u>-</u>	<u>287,494</u>
Capital assets being depreciated:				
Buildings	756,919	-	-	756,919
Improvements	1,598,713	99,806	-	1,698,519
Machinery and equipment	1,479,446	52,985	-	1,532,431
Infrastructure	11,300,081	3,525,784	-	14,825,865
Total capital assets being depreciated	<u>15,135,159</u>	<u>3,678,575</u>	<u>-</u>	<u>18,813,734</u>
Less accumulated depreciation for:				
Buildings	166,900	15,139		182,039
Improvements	465,122	53,403		518,525
Machinery and equipment	1,070,131	97,709	-	1,167,840
Infrastructure	6,757,746	403,302	-	7,161,048
Total accumulated depreciation	<u>8,459,899</u>	<u>569,553</u>	<u>-</u>	<u>9,029,452</u>
Total capital assets, being depreciated, net	<u>6,675,260</u>	<u>3,109,022</u>	<u>-</u>	<u>9,784,282</u>
Governmental activities capital assets, net	<u>\$ 6,954,054</u>	<u>\$ 3,117,722</u>	<u>\$ -</u>	<u>\$ 10,071,776</u>
<b>Business-type activities:</b>	<b>Beginning</b>			<b>Ending</b>
	<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b>
Capital assets not being depreciated:				
Land	\$ 112,895	\$ -	\$ -	\$ 112,895
Water rights and stock	696,466	-	-	696,466
Total capital assets not being depreciated	<u>809,361</u>	<u>-</u>	<u>-</u>	<u>809,361</u>
Capital assets being depreciated:				
Buildings	23,251	-	-	23,251
Improvements	15,044,151	5,556,113	-	20,600,264
Machinery and equipment	300,480	-	-	300,480
Total capital assets being depreciated	<u>15,367,882</u>	<u>5,556,113</u>	<u>-</u>	<u>20,923,995</u>
Less accumulated depreciation for:				
Buildings	18,425	186	-	18,611
Improvements	3,168,104	300,924	-	3,469,028
Machinery and equipment	234,507	26,722	-	261,229
Total accumulated depreciation	<u>3,421,036</u>	<u>327,832</u>	<u>-</u>	<u>3,748,868</u>
Total capital assets, being depreciated, net	<u>11,946,846</u>	<u>5,228,281</u>	<u>-</u>	<u>17,175,127</u>
Business-type activities capital assets, net	<u>\$ 12,756,207</u>	<u>\$ 5,228,281</u>	<u>\$ -</u>	<u>\$ 17,984,488</u>

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

General government	\$ 78,454
Public safety	30,179
Highways and public improvements	405,706
Parks and recreation	55,214
Total depreciation expense - governmental activities	<u>\$ 569,553</u>

**Business-type activities:**

Water	\$ 139,977
Sewer	111,649
Electric	70,660
Solid Waste	5,546
Total depreciation expense - business-type activities	<u>\$ 327,832</u>

**NOTE 8 - CAPITAL LEASE COMMITMENTS**

The assets acquired through capital leases are as follows:

<u>Activities</u>	<u>Governmental Activities</u>
Asset:	
Fire Truck	<u>\$ 133,000</u>
Accumulated Amortization	<u>\$ 30,122</u>

Amortization of capital assets purchased under capital leases is included in depreciation.

The City has acquired fixed assets financed with capital leases. The related lease agreements contain fiscal funding clauses which allow cancellation of the leases if future funding of the leases are not budgeted by the City Council.

The following is a schedule of yearly future lease payments under governmental fund-type capital leases together with the present value of net minimum lease payments as of June 30, 2006

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 18,402	\$ 2,835	\$ 21,237
2008	18,966	2,271	21,237
2009	19,546	1,691	21,237
2010	20,145	1,092	21,237
2011	20,762	474	21,236
	<u>\$97,821</u>	<u>\$8,363</u>	<u>\$106,184</u>

**SALEM CITY CORPORATION**  
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**9. LONG-TERM DEBT**

**Water Revenue Bonds - Series 1991 - (4% Interest) - (Payments Due Annually)**

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1/1/2007	\$ 24,000	\$ 6,480	\$ 30,480
1/1/2008	25,000	5,520	30,520
1/1/2009	27,000	4,520	31,520
1/1/2010	28,000	3,440	31,440
1/1/2011	28,000	2,320	30,320
1/1/2012	30,000	1,200	31,200
	<u>\$162,000</u>	<u>\$ 23,480</u>	<u>\$185,480</u>

**Sewer Revenue Bonds - Series 1994 - (2% Interest) Issued 4/18/94 - (Payments Due Annually)**

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
10/1/2006	\$ 16,000	\$ 2,780	\$ 18,780
10/1/2007	17,000	2,460	19,460
10/1/2008	17,000	2,120	19,120
10/1/2009	17,000	1,440	18,440
10/1/2010	18,000	1,080	19,080
2011-2014	53,986	2,840	56,826
	<u>\$138,986</u>	<u>\$12,720</u>	<u>\$151,706</u>

**General Obligation Taxable Sewer Bonds - Series 1993**  
**Issued February 1, 1993**

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2007	\$34,000	\$ 0	\$34,000
2/1/2008	34,000	0	34,000
	<u>\$68,000</u>	<u>\$ 0</u>	<u>\$68,000</u>

**Water Revenue Bond - Series 1996 - Issued 1996**

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 15,000	\$ 0	\$ 15,000
2008	15,000	0	15,000
2009	15,000	0	15,000
2010	15,000	0	15,000
2011	15,000	0	15,000
2012-2015	48,875	0	48,875
	<u>\$123,875</u>	<u>\$ 0</u>	<u>\$123,875</u>

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**9. LONG-TERM DEBT (Continued)**

The General Obligation Refunding Bonds refunded the bonds issued for the construction of the Sewer Plant. The plant is used jointly by Salem City and Elk Ridge City. The bond payments are shared by both cities in ratio to their sewer connections. The ratio is currently 81.95% by Salem City and 18.05% by Elk Ridge City.

**Excise Tax Revenue Bonds - Series 2002**

Issued September 15, 2002 - Interest Due February 15 and August 15

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
08/15/06	\$ 33,000	\$ 34,414	\$ 67,414
08/15/07	33,000	32,681	65,681
08/15/08	35,000	30,896	65,896
08/15/09	36,000	29,033	65,033
08/15/10	38,000	27,090	65,090
08/15/11 - 2015	220,000	103,110	323,110
08/15/16 - 2021	<u>277,000</u>	<u>37,406</u>	<u>314,406</u>
	<u>\$672,000</u>	<u>\$294,630</u>	<u>\$966,630</u>

**General Obligation Refunding Water Bonds- Series 2004**

Issued March 1, 2004 - Interest Due March 1, and September 1

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
03/01/07	\$ 240,000	\$ 82,288	\$ 322,288
03/01/08	240,000	77,487	317,487
03/01/09	245,000	72,087	317,087
03/01/10	250,000	65,962	315,962
03/01/11	260,000	59,088	319,088
2012-2016	<u>1,420,000</u>	<u>162,288</u>	<u>1,582,288</u>
	<u>\$2,655,000</u>	<u>\$519,200</u>	<u>\$3,174,200</u>

**Electric Revenue Bonds - Series 2000**

Issued November 18, 2000 - Interest Due November 18 and May 1

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/01/06	\$120,000	\$32,193	\$152,193
11/01/07	125,000	25,730	150,730
11/01/08	130,000	18,940	148,940
11/01/09	140,000	11,682	151,682
11/01/10	<u>145,000</u>	<u>3,951</u>	<u>148,951</u>
	<u>\$660,000</u>	<u>\$92,496</u>	<u>\$752,496</u>

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**9. LONG-TERM DEBT (Continued)**

**Bond Debt & Capital Lease Requirements**

The annual requirements to amortize all bonded debt and capital lease outstanding as of June 30, 2006 including interest are as follows:

Year Ended June 30	Revenue Bonds	General Obligation Bonds	Total All Bonds	Capital Lease	Total
2007	\$ 283,866.25	\$ 356,287.50	\$ 640,153.75	\$ 21,236.74	\$ 661,390.49
2008	281,391.25	351,487.50	632,878.75	21,236.75	654,115.50
2009	280,476.25	317,087.50	597,563.75	21,236.75	618,800.50
2010	281,595.00	315,962.50	597,557.50	21,236.74	618,794.24
2011	212,271.25	319,087.58	531,358.83	21,236.75	552,595.58
2012-2015	460,326.45	1,582,287.42	2,042,613.87	.00	2,042,613.87
2016-2020	319,712.50	.00	319,712.50	.00	319,712.50
2021	<u>60,548.75</u>	<u>.00</u>	<u>60,548.75</u>	<u>.00</u>	<u>60,548.75</u>
	2,180,187.70	3,242,200.00	5,422,387.70	106,183.73	5,528,571.43
Less Amounts Representing:					
Interest	423,326.25	519,200.00	942,526.25	8,362.81	950,889.06
Current Portion	<u>208,000.00</u>	<u>274,000.00</u>	<u>482,000.00</u>	<u>18,401.78</u>	<u>500,401.78</u>
Total Long-Term Portion	<u>\$1,548,861.45</u>	<u>\$2,449,000.00</u>	<u>\$3,997,861.45</u>	<u>\$ 79,419.14</u>	<u>\$4,077,280.59</u>

**Summary of changes in long-term debt is as follows:**

	Balance July 1	Increase	Decrease	Balance June 30	Due Within One Year
<i>Governmental Type Activities</i>					
Excise Tax Bonds	\$ 704,000	\$ 0	\$ 32,000	\$ 672,000	\$ 33,000
Capital Lease	115,676		17,855	97,821	18,402
Compensated Absences	<u>7,177</u>		<u>482</u>	<u>6,695</u>	
Total Governmental Activities	<u>\$ 826,853</u>	<u>\$</u>	<u>\$ 50,337</u>	<u>\$ 776,516</u>	<u>\$ 51,402</u>
<i>Business Type Activities</i>					
General Obligation Bonds	\$3,087,000	\$ -	\$364,000	\$2,723,000	\$274,000
Revenue Bonds	<u>1,248,861</u>	<u>-</u>	<u>164,000</u>	<u>1,084,861</u>	<u>175,000</u>
Total Business Activities	<u>4,335,861</u>	<u>-</u>	<u>528,000</u>	<u>3,807,861</u>	<u>449,000</u>
Total Government-Wide	<u>\$5,162,714</u>	<u>\$ -</u>	<u>\$578,337</u>	<u>\$4,584,377</u>	<u>\$500,402</u>

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**10. RETIREMENT PLANS**

**Local Governmental - Cost Sharing**

*Plan Description.* Salem City Corporation contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System for employers with Social Security coverage, Firefighters Retirement System which are for employers without Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with Social Security coverage, and Firefighters Retirement System which are for employers without Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

**Funding Policy.** Salem City Corporation is required to contribute to the Local Government Noncontributory Retirement System 11.09% of the Plan members' annual covered salary. In the Public Safety Retirement System for employers with Social Security coverage noncontributory division members are required to contribute 19.34% of their salary (all or part may be paid by the employer for the employee). The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Salem City Corporation contributions to the Local Governmental Noncontributory Retirement System for June 30, 2006, 2005 and 2004 were \$83,023, \$73,256 and \$61,836, respectively, and for the Public Safety Retirement System the contributions for June 30, 2006, 2005 and 2004 were \$42,893, \$37,140 and \$30,887 respectively, and for the 401K Plan System the contributions for June 30, 2006, 2005 and 2004 were \$32,774, \$29,968 and \$23,429 respectively. The contributions were equal to the required contributions for each year.

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**11. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for these risks. Various policies are purchased through an insurance agency to cover liability, theft, damages, and other losses. A minimal deductible applies to these policies which the City pays in the event of any loss. The City also has purchased a workers' compensation policy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**12. JOINT VENTURES**

**SOUTH UTAH VALLEY SOLID WASTE DISTRICT**

Salem City joined in a joint venture with several other municipalities to create the South Utah Valley Solid Waste District (the District). The District was created for the purpose of building a landfill and transfer station and operating the same for the benefit of member municipalities. The majority of the District's sanitation service revenue comes from these governmental entities.

Additional information is as follows:

a. Participants and their percentage shares:

Spanish Fork City Corporation	11.750%
Provo City Corporation	69.750%
Springville City Corporation	15.000%
Mapleton City Corporation	2.000%
Salem City Corporation	1.500%
Goshen Town (Landfill participant only)	<u>0.000%</u>
	<u>100.000%</u>

- b. The District is governed by a Board of Directors which is compromised of six directors. The Mayor and City Council of each member City appoints one director. All decisions of the Board are by majority vote, except in the case of a tie. In a tie, the votes would be taken by tonnage. For Provo to prevail in a tie vote they would need one additional city to vote with them.
- c. The District's Board of Directors governs the operations of the District through management employed by the Board. Since the District is subject to the same laws as the creating entities, it must follow State law for cities in the areas of fiscal management, budgeting, and financing.

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**12. JOINT VENTURES (Continued)**

d. Unaudited summary financial information of the District at June 30, 2006 is as follows:

	South Utah Valley Solid Waste District	Salem City's Share 1.50%
Total Assets	<u>\$16,922,769</u>	<u>\$ 253,842</u>
Total Liabilities	<u>\$ 3,058,221</u>	<u>\$ 45,873</u>
Total Equity	<u>\$13,864,548</u>	<u>\$ 207,968</u>
Total Operating Revenues	\$ 4,105,005	\$ 61,575
Total Operating Expenses	<u>4,265,757</u>	<u>63,986</u>
Net Operating Income	( 160,752)	( 2,411)
Total Non-Operating Income (Expense)	<u>325,307</u>	<u>4,880</u>
Net Income Before Contributions	164,555	2,469
Capital Contributions	<u>39,000</u>	<u>585</u>
Net Change in Net Assets	<u>\$ 203,555</u>	<u>\$ 3,054</u>

e. The joint venture has the following long-term debt:

	Total Amount	Salem City's Share
Closure and Post-Closure Liability	\$2,691,748	\$ 40,377
Accrued Compensated Absences	<u>167,261</u>	<u>2,509</u>
Total Long-Term Liabilities	<u>\$2,859,009</u>	<u>\$ 42,886</u>

f. Audited financial statements for South Utah Valley Solid Waste District are available at the District's office.

Salem City and Elk Ridge City have entered into a joint venture for the construction and operation of a sewer plant. The operation costs are shared by them based on the number of REC's (Residential Equivalent Connections) for the year.

The sewer plant cost has been reflected in total in the Sewer Fund (an Enterprise Fund) of these financial statements.



**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**13. SERVICE REVENUE (GENERAL FUND) -  
ADMINISTRATIVE EXPENSE (ENTERPRISE FUNDS)**

The General Fund revenue (charge for service) includes administrative service fees from the water fund, sewer fund, electric fund and the waste collection fund of \$110,000, \$83,000, \$175,000 and \$45,000 respectively.

**14. NON-CASH ITEMS**

Non-cash items from capital and related financing activities include contributions by subdividers to the water system of \$2,035,530 to the sewer system of \$1,630,715, and to the electric system of \$1,689,327.

Non-cash financing and investing transactions increased the equity in a joint venture by \$3,054.

**15. RESTRICTED FUND BALANCES**

**General Fund**

An amount is set aside for Impact Fees not yet expended	\$ 139,454
Unspent portion of "C" Road Funds	<u>94,757</u>
	<u>\$ 234,211</u>

**16. OTHER DISCLOSURES**

**Excess of Expenditures Over Appropriations**

Utah law requires that actual expenditures shall not exceed budgeted appropriations for any department fund. Actual expenditures for the Parks & Recreation Department in the General Fund exceeded budgeted expenditures by \$2,369. The general fund budget as a whole was under-spent by \$67,984.

**SALEM CITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**17. SEGMENT INFORMATION FOR INTERNAL SERVICE FUNDS**

The City maintains Internal Service Funds which provide motor pool and data processing services. Selected unaudited information for these funds for the year ended June 30, 2006 is as follows:

	<u>Motor Pool</u>	<u>Data Processing</u>	<u>Total</u>
Operating Revenues	\$ 171,086	\$ 116,000	\$ 287,086
Depreciation and Amortization	( 53,171)		( 53,171)
Other Operating Expenses	( 121,602)	( 115,441)	( 237,043)
Operating Income (Loss)	( 3,687)	559	( 3,128)
Non-Operating Revenue (Expense)	<u>2,142</u>	<u>0</u>	<u>2,142</u>
Net Increase (Decrease) in Retained Earnings	( <u>\$ 1,545</u> )	<u>\$ 559</u>	( <u>\$ 986</u> )
Property & Equipment (Net of Depreciation)	\$132,513	\$ 0	\$132,513
Total Assets	183,265	373	183,638
Total Liabilities	2,696		2,696
Total Fund Equity	82,227	373	82,600

**REQUIRED SUPPLEMENTAL INFORMATION**

# SALEM CITY

## General Fund

### Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual For the Year Ended June 30, 2006

	Budget Amounts		General Fund	Variances with Final Budget
	Original Budget	Final Budget		Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 972,000	\$ 1,046,000	\$ 1,030,744	\$ (15,256)
Licenses and permits	194,650	179,100	198,089	18,989
Intergovernmental	192,500	611,868	551,449	(60,419)
Charges for services	896,111	686,050	740,499	54,449
Fines and forfeitures	20,000	20,000	22,339	2,339
Miscellaneous revenue	4,500	208,870	174,969	(33,901)
Total revenue	<u>2,279,761</u>	<u>2,751,888</u>	<u>2,718,089</u>	<u>(33,799)</u>
<b>EXPENDITURES</b>				
Current:				
General government	649,155	782,864	774,613	8,251
Public safety	710,592	717,230	712,994	4,236
Highways and public works	282,250	325,500	267,634	57,866
Parks and recreation	708,941	666,895	669,264	(2,369)
Total expenditures	<u>2,350,938</u>	<u>2,492,489</u>	<u>2,424,505</u>	<u>67,984</u>
Excess revenues over (under) expenditures	(71,177)	259,399	293,584	34,185
<b>Other financing sources (uses)</b>				
Sale of assets	-	-	3,114	3,114
Transfers in	21,177	21,177	21,177	-
Transfer out	50,000	(280,576)	(280,576)	-
Net change in fund balance	-	-	37,299	37,299
Fund balances - beginning of year		257,696	257,696	-
Fund balances - end of year	<u>\$ -</u>	<u>\$ 257,696</u>	<u>\$ 294,995</u>	<u>\$ 37,299</u>

**SUPPLEMENTAL INFORMATION**

**SALEM CITY**  
Combining Balance Sheet  
**Non-Major Governmental Funds**  
June 30, 2006

	Special Revenue Fund	Capital Project Funds	Permanent Fund	Total Non-Major Governmental Fund
	Municipal Building Authority	Community Center Project	Perpetual Care	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 54,283	\$ 271,876	\$ 63,284	\$ 389,443
Interfund loans	-	-	-	-
Total assets	<u>\$ 54,283</u>	<u>\$ 271,876</u>	<u>\$ 63,284</u>	<u>\$ 389,443</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Deferred revenue	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Unreserved fund balance	54,283	271,876	63,284	389,443
Total fund balances	<u>54,283</u>	<u>271,876</u>	<u>63,284</u>	<u>389,443</u>
Total liabilities and fund balances	<u>\$ 54,283</u>	<u>\$ 271,876</u>	<u>\$ 63,284</u>	<u>\$ 389,443</u>

# SALEM CITY

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Non-Major Governmental Funds For the Year Ended June 30, 2006

	Speial Revenue Municipal Building Authority	Capital Projects Community Center Project	Permanent Fund Perpetual Care	Total Non-major Governmental Funds
<b>REVENUES:</b>				
Intergovernmental	\$ 68,870	\$ -	\$ 1,261	\$ 70,131
Investment earnings	2,233	-	1,009	3,242
Total	71,103	-	2,270	73,373
<b>EXPENDITURES:</b>				
Capital outlay	-	8,700	-	8,700
Debt service:				
Principal retirement	32,000	-	-	32,000
Interest and fiscal charges	38,865	-	-	38,865
Total	70,865	8,700	-	79,565
Excess of revenues over (under) expenditures	238	(8,700)	2,270	(6,192)
<b>Other financing sources (uses)</b>				
Tranfers in	-	280,576	-	280,576
Net change in fund balance	238	271,876	2,270	274,384
Fund balances - begin	54,045	-	61,014	115,059
Fund balances - end	\$ 54,283	\$ 271,876	\$ 63,284	\$ 389,443

**SALEM CITY CORPORATION**  
**SCHEDULE OF IMPACT FEES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

YEAR COLLECTED	RECREATION FUND	WATER FUND	SEWER FUND	ELECTRIC FUND
2003-2004	\$ -	\$ -	\$ 26,214.92	\$ -
2004-2005	129,086.40	59,302.96	121,606.96	55,072.91
2005-2006	198,137.28	297,584.19	136,174.47	104,398.67
<b>EXPENDITURE 2005-2006</b>				
Bond Payment	119,505.34	212,905.06	3,465.00	95,002.17
Score Board	9,667.03	-	-	-
Civic Center	58,597.97	-	-	-
Nebo Water Line	-	10,673.00	-	-
George Rasband Line 8800 South	-	3,500.00	-	-
Sewer Headworks	-	-	20,163.16	-
Impact Fee Refund	-	-	-	1,300.00
<b>FUNDS AVAILABLE, JUNE 30, 2006</b>	<b>139,453.34</b>	<b>129,809.09</b>	<b>260,368.19</b>	<b>63,169.41</b>
<b>Budgeted Expenditures 2006-2007</b>				
Bond Payment	69,620.00	206,500.00	-	101,400.00
Civic Center	166,402.00	-	-	-
Elk Ridge Sewer Buy Out	-	-	50,000.00	-
<b>Planned Expenditures</b>				
Bond Payment (Yearly)	69,620.00	206,500.00	-	101,400.00
Property Purchases	320,000.00	-	750,000.00	-
Capital Improvement	1,587,000.00	1,757,875.00	-	3,552,746.00



## OTHER REPORTS

# GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION

RANDEL A. HEATON, CPA  
LYNN A. GILBERT, CPA  
JAMES A. GILBERT, CPA  
BEN H. PROBST, CPA  
RONALD J. STEWART, CPA

SIDNEY S. GILBERT, CPA  
JAMES E. STEWART, CPA  
ROBERT PHELPS, CPA

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council  
Salem City Corporation  
Salem, UT

November 13, 2006

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem City Corporation as of and for the year ended June 30, 2006, which collectively comprise the City of Salem's basic financial statements and have issued our report thereon dated November 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Salem City Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Salem City Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to management of Salem City Corporation in a separate letter dated November 13, 2006.

This report is intended solely for the information of management, Utah State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
GILBERT & STEWART  
Certified Public Accountants

# GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION

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ROBERT PHELPS, CPA

## INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE WITH APPLICABLE UTAH STATE LAWS AND REGULATIONS

Honorable Mayor and City Council  
Salem City Corporation  
Salem, UT

November 13, 2006

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Salem City Corporation for the year ended June 30, 2006, and have issued our report thereon dated November 13, 2006. As part of our audit, we have audited Salem City Corporation's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major state assistance programs from the State of Utah:

B & C Road Funds (Department of Transportation)  
Liquor Law Enforcement (Utah State Tax Commission)

The City also received the following nonmajor grant which is not required to be audited for specific compliance requirements: (However, this program was subject to test work as part of the audit of the Salem City Corporation's financial statements.)

Emergency Medical Service (Health Department)

Our audit also included test work on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt	Liquor Law Enforcement
Cash Management	B & C Road Funds
Purchasing Requirements	Other General Issues
Budgetary Compliance	Impact Fees
Truth in Taxation & Property	Asset Forfeiture
Tax Limitations	

The management of the Salem City Corporation is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Salem City Corporation complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2006.

This report is intended solely for the information of management and Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART  
*Certified Public Accountants*

# **SALEM CITY CORPORATION**

## **MANAGEMENT LETTER**

**JUNE 30, 2006**

**GILBERT & STEWART**CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATIONRANDEL A HEATON, CPA  
LYNN A. GILBERT, CPA  
JAMES A. GILBERT, CPA  
BEN H. PROBST, CPA  
RONALD J. STEWART, CPASIDNEY S. GILBERT, CPA  
JAMES E. STEWART, CPA  
ROBERT PHELPS, CPAHonorable Mayor and City Council  
Salem City Corporation  
Salem, UT

November 13, 2006

We have audited the financial statements of Salem City Corporation for the year ended June 30, 2005 and have issued our report thereon dated November 13, 2006. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated September 5, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Salem City Corporation. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Salem City Corporation's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

This letter is issued as required by Statement on Auditing Standards No. 61, "Communications with audit committees", which requires auditors to determine that certain matters related to the conduct of an audit are communicated to those who have responsibility for the oversight of the financial reporting process.

**Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The

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AMERICAN FORK, UT 84003  
(801) 758-9886  
FAX (801) 758-9887HEBER OFFICE  
45 SOUTH MAIN ST.  
HEBER, UTAH 84032  
(435) 654-6477  
FAX (801) 373-5822

significant accounting policies used by Salem City Corporation are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Salem City Corporation during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

#### Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Salem City Corporation's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

The following matters are items noticed during our audit which related to Utah State compliance issues:

**Utah State Compliance Findings-Current Year****Budgetary Compliance:**

**Finding:** The City exceeded its budget in the Parks and Recreation department.

**Recommendation:** We recommend the City stay within the approved budget for each department.

**City's Response:** The City agrees with this recommendation.

**Utah State Compliance Findings - Prior Year****General Compliance Issues**

**Finding:** The Data Processing Fund, an Internal Services Fund, has a deficit balance.

**Recommendation:** The City should increase the charges made by this fund for its services to not only cover the current expenses but also to eliminate the fund deficit.

**City's Response:** The charges for the Data Processing will be increased this year to eliminate the \$185 deficit.

**Auditor Response:** This deficit has been eliminated.

**Budgetary Compliance**

**Finding:** The City exceeded its budget in the Highways and Public Works department.

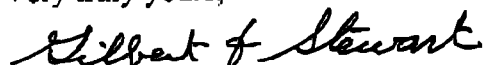
**Recommendation:** We recommend the City stay within the approved budget for each department.

**City's Response:** The City agrees with this recommendation. The City over spent the budget for the Highway and Public Works department because we overlooked budgeting for the expenditure of B & C Road funds carried - over from the prior year.

We thank you for the opportunity to serve the Salem City Corporation. City personnel were very helpful in providing required documentation and information during our audit. Management is providing information and services to the City in an efficient and competent manner. If you have any questions regarding the above information or our audit please call.

This information is intended solely for the use of the City Council and management, and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,



GILBERT & STEWART  
Certified Public Accountants